

**The Large and Mid-Size Business Division
Should Consider Changes to the Computer
Audit Specialist Program to Address
Operational Priorities**

September 2002

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

September 11, 2002

MEMORANDUM FOR COMMISSIONER, LARGE AND MID-SIZE BUSINESS
DIVISION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Acting Inspector General

SUBJECT: Final Audit Report - The Large and Mid-Size Business Division
Should Consider Changes to the Computer Audit Specialist
Program to Address Operational Priorities (Audit # 200230011)

This report presents the results of our review to assess how timely the expertise of Computer Audit Specialists (CAS) is requested by and delivered to Large and Mid-Size Business (LMSB) Division examiners.

In summary, the Coordinated Industry Case (CIC) Program is responsible for examining the approximately 1,300 largest and most complex corporations, while the Industry Case (IC) Program is responsible for the remaining 56,700 large corporations. Examiners in both programs may call upon different types of LMSB Division specialists to assist with their work. For example, CASs provide support to the CIC examination teams by performing various computer applications to extract, convert, transfer, and print data from corporate systems for examiners to analyze.

CIC Program managers were very satisfied with the services they requested and received from the CAS Program. However, examiners performing IC corporate examinations do not consistently request the assistance of a CAS when appropriate. This may lead to examiners spending more time examining records than would be required if an automated analysis was performed. Finally, the 335 CASs serve primarily as advisors to other examiners. However, they are first and foremost highly skilled examiners that could be a resource to help the LMSB Division replace its experienced examiners nearing retirement.

The Director, Field Specialist Program, needs to coordinate with other LMSB Division officials to improve controls that would ensure IC Program cases are referred to the

CAS Program when appropriate. In addition, the CAS Program needs better management information, performance measures, and a reevaluation since it may present opportunities to better use the LMSB Division resources and address operational priorities.

Management's Response: Internal Revenue Service (IRS) management agreed with two of the three recommendations presented in the report. Management indicated that they are developing an Electronic Referral System to provide the necessary tools to better monitor the referral process and will work with the Office of Performance, Quality, and Innovation to develop performance measures.

Management did not agree with our recommendation to consider modifying the structure of the CAS Program, particularly focusing on whether CASs could become responsible for conducting their own examinations and how more comprehensive computer analysis training could be provided to all examiners to facilitate their work. Management cited, among other factors, that CASs would have minimal impact on audit coverage and a negative impact on cycle time due to reduced availability for their CAS duties.

Management's complete response to the draft report is included as Appendix IV.

Office of Audit Comment: We continue to believe that, once the CAS Program benefits can be measured, its staffing concepts need to be reevaluated to determine whether the opportunity exists to more fully use the skills of the CASs in providing examination coverage and addressing attrition. However, we do not intend to elevate our disagreement to the Department of the Treasury for resolution.

Copies of this report are also being sent to IRS officials who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

**The Large and Mid-Size Business Division Should Consider Changes to the
Computer Audit Specialist Program to Address Operational Priorities**

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The Large and Mid-Size Business Division Should Consider Changes to the Computer Audit Specialist Program to Address Operational Priorities

Background

The Computer Audit Specialist (CAS) Program has existed since the early 1970s when the need was identified to have specialists trained to work with the various computer systems coming into use by businesses. Now, as then, experienced Internal Revenue Service (IRS) examiners are selected and trained specifically to assist in the IRS' examination efforts by applying statistical sampling methods and performing data extracts and analyses requested by other examiners. The approximately 335 CAS examiners continue to be almost exclusively involved in the IRS' large corporate team examinations.

Organizationally, the Commissioner, Large and Mid-Size Business (LMSB) Division, has overall responsibility for the CAS Program, and it is directed within the LMSB Division under the Field Specialist Program. Among its responsibilities, the LMSB Division is tasked with examining the nation's largest corporations. For examination purposes, the LMSB Division splits these corporations into two groups. Of the approximately 58,000 large corporations, about 1,300 of the largest and most complex are classified as Coordinated Industry Cases (CIC), while the remaining are referred to as Industry Cases (IC). In both CIC and IC cases, examiners may call upon different types of LMSB Division specialists, such as a CAS, to assist with their work.

Although CIC and IC corporate examinations account for \$14 billion (70 percent) of the \$20 billion in recommended additional taxes from all IRS examinations, the length of time it takes to complete the examinations has been an ongoing concern of both the IRS and stakeholders. Large corporate examinations may not start for several years after the corporate return is filed and take several more years to complete. As part of an ongoing effort to improve the post-filing examination process, the LMSB Division has a strategic initiative to reduce the cycle time on CIC and IC corporate examinations.

This review is part of our Fiscal Year (FY) 2002 emphasis on the LMSB Division's post-filing examination process. We performed our work at the LMSB Division's Headquarters and offices in the New York, Chicago, and

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Coordinated Industry Case Managers Were Very Satisfied with Computer Audit Specialists' Services

Los Angeles metropolitan areas from October 2001 to March 2002 in accordance with *Government Auditing Standards*.

Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

At any given time, the IRS has approximately 1,300 CIC corporations under examination, and the approximately 335 CAS examiners focus most of their efforts on these examinations. Once assigned to a CIC corporate examination, the CASs spend, on average, about 330 hours on various computer applications to extract, convert, transfer, and print out automated accounting data for the examination teams to analyze.

The CIC case managers that we interviewed were generally very satisfied with the work of the CASs. They indicated that while they could not cite specific resource or time savings, they believed the CASs made important contributions to their efforts in examining automated accounting data. One interview with a case manager and a CAS summed up their opinions:

In the past, corporate officers would give the CAS access to their mainframe computers to extract data. However, the process did not always work well because mainframe computers were slow as they struggled to both process the corporation's day-to-day business transactions and the CAS's request. With the advent of Personal Computers (PC), the CAS can now request a flat file transfer from the corporations, which can then be converted to a format that the other team members can use on their PCs for analysis purposes.

Our review of a judgmental sample of 18 open CIC corporate examinations in the Manhattan and Los Angeles metropolitan areas confirmed the case managers' observations. We found that the CASs (1) applied statistical sampling techniques, (2) converted electronic accounting data residing on taxpayer computer systems into spreadsheet or database formats that could be used by other examiners,

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Computer Audit Specialists Had Limited Involvement in Examinations of Industry Cases

(3) summarized taxpayer accounting data, (4) selected detailed accounts to examine, and (5) helped assure taxpayers retained critical data necessary for current and future examinations. In addition to making these important contributions to LMSB Division's examination efforts, the CASs were generally involved early in the examination process and did not cause any unwarranted delays.

LMSB Division examiners are required to request the assistance of a CAS to determine whether the examination could be conducted more efficiently with computer applications. While the required referrals to CASs were made in the CIC corporate examinations, we found that examiners performing IC corporate examinations do not consistently request the assistance of a CAS when appropriate.

We judgmentally selected for review 33 IC corporations reporting \$50 million or more in assets from across the nation whose examinations were completed in FY 2001 and FY 2002. Although we did not identify instances where a CAS unnecessarily extended an examination, examiners did not make mandatory CAS referrals in 16 (48 percent) of the 33 cases reviewed.

Several CASs reviewed our exception cases and indicated that their assistance may have saved time and contributed to the quality of the examinations. As previously stated, the length of time it takes to complete the examinations has been an ongoing concern of both the IRS and stakeholders. For example, the Tax Executives Institute has indicated that when examinations are not current, record keeping burdens are created for corporations (i.e., if examinations were closed in a timely manner there would be less need to retain records).

The General Accounting Office's (GAO) *Standards for Internal Control in the Federal Government* describe control activities as the policies, procedures, techniques, and mechanisms that enforce management's directives. We applied these standards in evaluating the problem with the limited number of referrals made to CASs in IC corporate examinations and concluded that the LMSB Division

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controls for involving CASs in examinations were not always adequate or effective.

The control system is not adequate because there is no assurance that CASs have an opportunity to review all large corporations in the examination stream. In the past, establishing such a control was difficult because all large corporate returns were placed in the examination stream so that they could be manually screened for tax issues by examiners or their managers in local IRS offices. The screening process and criteria used could vary by office, and most of the returns that were entered into the examination stream were eventually eliminated from consideration.

The controls were not effective because the requirement to request referrals is known but sometimes ignored. In discussions with several LMSB Division managers and IC examiners, they admitted they were aware of the guideline to request the assistance of CASs. However, they did not always follow the guideline because they did not want to involve an “outside” specialist due to concerns that the process could be time consuming, thus delaying the completion of the examination.

Unlike the previous IRS geographic structure, the LMSB Division uses a centralized and much more structured approach to select large corporate returns for examination. All large corporate returns are now filed with 1 rather than 10 submission processing centers. To determine which return to select for discretionary examination, the LMSB Division scores the returns on specific criteria that result in about 90 percent fewer returns entering the examination stream.

Given the extensive technical training of the CASs, they should not have to depend on examiners less qualified and experienced in computer applications to determine if and when their involvement is needed. Rather, a control is needed to ensure they have the opportunity to evaluate all returns selected for examination, particularly now that significantly fewer returns are entering the examination stream and are doing so from a centralized location.

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Recommendation

1. The Director, Field Specialists Program, should coordinate with the LMSB Division's Industry Directors to establish a control process that cannot be easily ignored, so CASs have an opportunity to assist in determining which IC corporate examinations could benefit the most from their involvement.

Management's response: Management is developing an Electronic Referral System (ERS) to establish a control process for monitoring case referrals.

Reevaluating the Computer Audit Specialist Program May Present Opportunities to Better Use the Large and Mid-Size Business Division's Resources and Address Operational Priorities

Our work¹ and that of the GAO² have shown the importance of having performance measures and reliable management information for both assessing whether program benefits are being realized and identifying improvement opportunities. However, neither the LMSB Division officials nor we could accurately quantify the benefits delivered by the CAS Program because (1) performance measures have yet to be implemented and (2) it has multiple management information systems with no central focus.³ Without key information to assess both the contributions of the CASs and alternatives for achieving the same results, officials could be missing opportunities to more fully use the skills of the CASs.

The LMSB Division has an operational priority to pursue staffing to provide appropriate examination coverage and address attrition. Once the CAS Program benefits can be measured, we believe that its staffing concepts need to be

¹ One example was our audit report titled *Opportunities Exist to Enhance the International Field Specialization Program* (Reference Number 2000-30-130, dated September 2000).

² An example of work from the GAO is their *Executive Guide: Effectively Implementing the Government Performance and Results Act*.

³ Some offices, for example, used electronic spreadsheets or databases to track the CASs' activities, while others used paper documents. Some of the systems contained only taxpayer information, while others had information on milestones, completion dates, and the amount of time the CASs spent providing assistance.

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reevaluated to determine whether the opportunity exists to use CASs to help address this operational priority.

The CAS Program has existed since the 1970s when private sector companies began keeping accounting records on mainframe computers. Then, as now, the IRS trains many highly experienced tax examiners in computer auditing techniques so that they can assist other examiners in analyzing electronic accounting data. As advisors, these CASs are not assigned inventories of tax returns to examine even though they are, first and foremost, highly skilled examiners capable of conducting examinations of LMSB Division taxpayers.

However, mainframe computers from the 1970s and 1980s no longer dominate business. Mainframes have been largely replaced with smaller “user-friendly” PCs, which store data in ways that do not always require extensive expertise to access. Likewise, software is widely available for statistical sampling and other analytical methods that non-CAS examiners could quickly learn to use effectively in analyzing electronic data.

Considering the advances in computer technologies and the dwindling pool of experienced examiners, there is an opportunity to make CASs responsible for conducting their own examinations. At the same time, the LMSB Division would need to train non-CAS examiners in more comprehensive computer data access and analysis techniques. By broadening the skill sets of the non-CAS examiners, the LMSB Division could reduce the need for specialized support from the CASs.

Reevaluation of the CAS Program structure is necessary because the number of experienced examiners that can retire in the near future presents a huge compliance risk for the LMSB Division. Almost 40 percent of the Division’s examiner workforce could retire by FY 2005, which could leave a significant knowledge gap. We believe the approximately 335 CASs could be a resource that would help close this gap.

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Recommendations

The Director, Field Specialists Program should:

2. Improve the management information system and accelerate implementing performance measures so the CAS Program's benefits can be measured and opportunities for improvement identified.

Management's response: Management will use the new ERS to provide the necessary tools to better monitor the referral process and will work with the Office of Performance, Quality, and Innovation to develop performance measures.

3. Consider modifying the structure of the CAS Program, particularly focusing on whether CASs could become responsible for conducting their own examinations and how more comprehensive computer analysis training could be provided to all examiners to facilitate their work.

Management's response: Management did not agree with this recommendation citing, among other factors, that having the CASs conduct examinations would have minimal impact on audit coverage, while having a negative impact on cycle time due to reduced availability for their CAS duties.

Office of Audit Comment: We continue to believe that, once the CAS Program benefits can be measured, its staffing concepts need to be reevaluated to determine whether the opportunity exists to more fully use the skills of the CASs in providing examination coverage and addressing attrition.

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Appendix I

Detailed Objective, Scope, and Methodology

Our objective was to assess how timely the expertise of Computer Audit Specialists (CAS) is requested by and delivered to the Large and Mid-Size Business (LMSB) Division examiners. We performed our work at the LMSB Division's Headquarters and offices in the New York, Chicago, and Los Angeles metropolitan areas.

To meet our objective, we relied on Internal Revenue Service (IRS) internal management reports and databases. We did not establish the reliability of these data because extensive data validation tests were outside the scope of this audit. Except as noted above, our work was conducted in accordance with *Government Auditing Standards*. Our specific audit tests included the following:

- I. Defined the purpose, scope, inputs, outputs, and customer needs of the CAS Program by reviewing the LMSB Division's guidelines and interviewing LMSB Division executive level, mid-level, and front-line managers.
- II. Analyzed Fiscal Year (FY) 2000 and 2001 Examination Program Monitoring Table 37, the Audit Information Management System, and the Coordinated Examination Management Information System to determine the CAS staffing levels, where they applied their time, and the number of examinations they assisted in completing.
- III. Analyzed the Examination Return Control System and a judgmental sample of 18 open Coordinated Industry Case corporate examinations from the Los Angeles and New York metropolitan areas to determine whether examiners were requesting the assistance of CASs as required, the amount of time involved in requesting and delivering the assistance, and if the CASs were unnecessarily extending the length of examinations. A judgmental sample was used because a statistical sample to project results would have required unnecessary resources and time.
- IV. Reviewed a judgmental sample of 33 closed Industry Case corporate examinations from across the nation to determine whether examiners were requesting the assistance of CASs as required, the amount of time involved in requesting and delivering the assistance, and if the CASs were unnecessarily extending the length of examinations. A judgmental sample was used because a statistical sample to project results would have required unnecessary resources and time.
- V. Verified whether specific time frames and other performance measures had been established for requesting and delivering the technical advice from CASs and if the measures were aligned with those in the LMSB Division.

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- VI. Reviewed the General Accounting Office's (GAO's) *Executive Guide: Effectively Implementing the Government Performance and Results Act* and prior reports issued by the Treasury Inspector General for Tax Administration to assess the applicability of performance measures for the CAS Program.
- VII. Applied the GAO's *Standards for Internal Control in the Federal Government* to existing controls over requests for, and delivery of, CASS' services and evaluated whether risks were sufficiently minimized.

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Appendix II

Major Contributors to This Report

Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs)

Phil Shropshire, Director

Frank Dunleavy, Audit Manager

Stanley Pinkston, Senior Auditor

William Tran, Auditor

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Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner N:DC
Deputy Commissioner, Large and Mid-Size Business Division LM
Director, Field Specialists, Large and Mid-Size Business Division LM:FS
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Audit Liaison:
 Commissioner, Large and Mid-Size Business Division LM

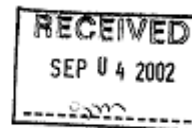
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Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



August 30, 2002

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: *Larry R. Langdon*
Commissioner, Large and Mid-Size Business Division

SUBJECT: Draft Audit Report – The Large and Mid-Size Business Division
Should Consider Changes to the Computer Audit Specialist
Program to Address Operational Priorities (Audit # 2002-30-011)

The Computer Audit Specialists (CASs) primarily support the LMSB Division's examinations of the nation's largest corporate returns. The CAS Program applied most of its resources to support Coordinated Industry Cases (CIC). Since its implementation in FY 2000, the CAS Program has:

- Increased assistance to its customers by providing services to all Business Operating Divisions
- Assisted the Tax Shelter Analysis and the Strategy, Research, and Program Planning offices with high level initiatives
- Assisted CIC managers in examining complex automated accounting data
- Identified and standardized key computer applications
- Assisted LMSB Business Systems Planning (BSP) and MITS with laptop and desktop rollout and movement to Windows 2000 and Windows XP environments
- Issued "Use of Probability Sampling" guidelines

The CAS Program continues to seek ways to measure program benefits and identify opportunities for improvement. Over the years, we have tried numerous measures, but have not accurately shown the success of the CAS Program. In addition, the Director, Field Specialists Program is working to improve the CAS Program services. An Electronic Referral System (ERS) will become operational by October 31, 2002. The new ERS will capture the data we need to monitor the referral process. We are also evaluating measures and commitments for FY 2003 in support of the LMSB Division initiatives.

The following are our specific comments on the draft report findings and recommendations.

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IDENTITY OF FINDINGS AND RECOMMENDATIONS:

FINDING:

Computer Audit Specialists had limited involvement in examinations of Industry Cases.

ASSESSMENT OF CAUSE(S):

The Internal Revenue Manual (IRM) requires CAS referrals on all taxpayers with assets of more than \$10,000,000. This includes all IC cases. Before June 2000, each CAS Team monitored these referrals using old local Legacy District systems. Since June 2000, those systems are no longer available and IC examiners are not sure where to send FS and CAS referrals in the new organization.

Currently, each CAS Team manager monitors referrals but has no CAS Program level system. I agree with your report that CASs should have the opportunity to determine if an IC examination could benefit from our involvement. Pre-determining the need for CAS involvement in IC cases at the LMSB centralized submissions processing center is not possible. Your report indicated IC examiners were aware of the referral requirements; however, they did not always follow the guidelines because they did not want to involve "outside" specialists due to concerns that the process could be time-consuming, thus delaying completion of the examinations. The CAS Program identified the need for a program level referral system.

Because the limited number of IC referrals was common to all Field Specialist (FS) programs, the Director commissioned a Task Force to design one "Electronic Referral System" (ERS). Task Force representatives from each FS Program designed the new user-friendly ERS. We are testing the system and expect full implementation at the beginning of FY 2003.

AIMS Centralized Information System (ACIS) replaced the Legacy District System in LMSB. The new FS Planning Special Programs (PSP) analyst, selected in February 2002, can provide ACIS case opening information to compare with ERS case referrals. Identifying non-referred IC cases early will allow the CAS Program the opportunity to review an increased number of IC case referrals to better identify which might benefit from CAS involvement.

RECOMMENDATION 1:

The Director, FS Program should coordinate with LMSB Division's Industry Directors to establish a control process that cannot be easily ignored so CASs have an opportunity to assist in determining which IC corporate examinations could benefit the most from their involvement.

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CORRECTIVE ACTIONS:

I share your concerns about the Industry Case (IC) limited referrals. A major initiative in the FS Program is the development of a user-friendly ERS to provide the necessary tools to better monitor the IC referral process within each LMSB Industry and FS Program. Completion of the ERS is near. The ERS will provide the CAS Program with an improved management information system.

The ERS will allow all operating divisions to make referrals to field specialists. In addition, the system will capture the mandatory referral criteria for all the specialty programs. For example, if an examiner enters an activity code while making a referral to the Computer Audit Specialist Program, a system indicator will alert the examiner about the need to refer the case to all other specialties. This will significantly increase the number of referrals made at the beginning of an examination. The ERS will accelerate the referral time because it will transmit the referral electronically. The new system will also capture critical information such as the referring team's examination starting date and the specialist's starting and expected closing dates.

IMPLEMENTATION DATE:

PROPOSED DATE: October 31, 2002 – ERS roll out

RESPONSIBLE OFFICIAL:

Director, Field Specialists

CORRECTIVE ACTION(S) MONITORING PLAN:

CAS Program management will:

- Use the ERS to monitor IC case referrals
- Compare ERS referrals with ACIS case openings
- Contact IC case Team Managers to obtain missing mandatory referrals
- Monitor IC referrals, the percentage of non-referrals, and the IC workload

We will establish a baseline and see if IC referrals increase with the use of the new ERS and program guidelines.

FINDING:

Reevaluating the Computer Audit Specialist Program may present opportunities to better use the Large and Mid-Size Business Division's resources and address operational priorities.

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ASSESSMENT OF CAUSE(S):

Management Information System and Performance Measures:

Currently, each CAS Team Manager monitors referrals but has no CAS Program level system. The CAS Program identified the need for a Program level referral system. Because the limited number of IC referrals was common to all FS Programs, the FS Director commissioned a Task Force to design one ERS. Task Force representatives from each FS Program designed a new user-friendly ERS. We are testing the system and expect full implementation at the beginning of FY 2003. The ERS will provide numerous management information reports.

While we agree measures contribute to accountability, we have difficulty finding measures that result in increasing positive performance. Previous measures have not been effective in evaluating the benefits brought to our customers. Since the early 1990's, the CAS Program has sought performance measures to assess and quantify program benefits, which would provide a means to identify improvement opportunities. Past efforts include:

- Recommending treating CAS time as overhead not charged to the cases
 - Intended to increase IC case referrals
 - Lacked accountability – not implemented
- Counting computer applications
 - Intended to show the more applications the higher our performance
 - Found no direct correlation between the number of applications and performance
 - Counted same work product or application different ways
 - Encouraged more inefficient programming
 - Ceased measure
- Counting statistical sampling applications
 - Intended to increase the use of statistical sampling
 - Encouraged use when not appropriate
 - Ceased measure
- Counting CAS involvement in significant CIC issues
 - Intended to encourage CAS involvement in the CIC significant issues
 - Relied on inaccurate significant issue information input by others
 - Ceased – too subjective

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- Getting involved early on CIC cases
 - Intended to show involvement in the 1st FY Quarter
 - Completed planned applications and charged them to the prior cycle
 - Prevented charging time to the correct cycle using the Examination Records Control System
 - Ceased monitoring – Systems did not meet our needs

The CAS Program management believes the one significant performance measure is customer satisfaction, both internal and external. We provided numerous CAS reviewers to the LMSB Quality Management System (LQMS) staff. Last fiscal year, the CAS Program developed and implemented a CAS Program Closed Case Report as a direct result of LQMS. We are identifying FY 2003 performance measures. We will recommend the LQMS CAS Overall Quality Rating as an indicator of quality. We plan to identify CAS tasks to support LMSB initiatives.

CAS Program Structure Modifications:

LMSB has an operational priority to pursue staffing to provide appropriate examination coverage and address attrition. A very high percentage of LMSB employees are eligible to retire or nearing retirement. The LMSB Division has the IRS' most experienced examiners and specialists. Replacement and succession planning are critical to the LMSB Division. Attrition within the LMSB Division is serious (40 percent by FY 2005), but the CAS Program attrition rate is higher (54 percent). These attrition numbers come from an LMSB Management and Finance Report.

Assigning CASs to work tax return inventories would accelerate the already critical need for more CASs and not reduce the overall LMSB attrition. CASs would have minimal impact on audit coverage and a negative impact on cycle time on other cases due to reduced availability for their CAS duties. Our investment in the training of CASs is too high and it would be costly not to use their skills to their fullest potential. This trade off is more detrimental than positive. Many CASs have not worked a return independently in over 10 years. CASs would need significant refresher training that would negatively impact both audits and CAS coverage.

To compensate for CASs conducting examinations, your report recommends LMSB examiners receive more extensive computer analysis training, implying they would perform some of the CAS duties. You summarized the CAS duties as performing various computer applications to extract, convert, transfer, and print data from corporate systems for examiners to analyze. Your report refers to a case manager's opinion that with the advent of personal computers (PCs), the CAS can now request a flat file transfer from a corporation, which we can then convert to a format the other team members can use on their PCs for analysis. This statement does not truly reflect the extremely difficult duties the CAS performs daily on each unique CIC case. The CAS

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timely delivers requested data to LMSB examiners in a format they can access, thus CIC customer satisfaction is very high. The knowledge and multiple steps needed to accomplish this task are monumental and not readily visible to LMSB examiners, managers, and executives.

The extensive CAS training does not teach specific software, hardware, or accounting systems. The CAS gains knowledge in data representation, formats, and systems analysis. They must adapt this knowledge to each unique CIC taxpayer. Rarely, a flat file is taken from a CIC taxpayer and read directly into an LMSB PC. The CAS must use mainframe programming language skills because the files on CIC cases are too large for PCs. Data needed by LMSB is a combination of numerous files and tables. The account and vendor numbers are in one file, but the account and vendor descriptions are usually in another file. Files for prior tax years are not on-line but stored off-line in various locations. In many instances, the taxpayer has changed computers, software, and media formats (i.e., 3480 tape cartridges, 3490 tape cartridges, 3590 tape cartridges, etc.). Most CIC cases contain mergers or acquisitions, which also add to the complexity of the task. Many times, the years of a 3-year CIC cycle are all in different formats. The CAS has the knowledge and the hardware and software resources to handle all of these situations. It takes years of training to become proficient in handling each unique situation.

It is not cost effective to attempt to teach this combination of many skills to LMSB examiners. LMSB examiners could benefit from additional training to use the data provided to them by the CASs (i.e. more ACCESS query and report writing training). The additional training cannot replace the steps taken by the CASs preparing the data for their use. The key is to have data in one file on a PC for their use. The more training provided to LMSB examiners could actually increase the demand on CASs, and the examiners would want access to more files and data. This is where the majority of the CAS time is spent.

You refer to widely available statistical sampling and analytical software. With the IRS' limited resources and initiative to increase audit coverage and reduce cycle time, statistical sampling is a natural choice. CASs are trained to develop statistical sampling plans which maximize efficiency and minimize sampling error. Analyzing the population and determining the sample unit is critical and done by knowledgeable CASs, not LMSB examiners. The CASs are experts in using statistical sampling. Should a case go to trial, they can work closely with our outside statistical sampling expert and Counsel to support our methodology.

The CAS Program works closely with the LMSB BSP and MITS to identify, test, and implement new operating systems, software, and images for LMSB, including movement from Windows NT to Windows 2000 and now Windows XP, done within a year. We are also working closely with the offices of Tax Shelter Analysis and Strategy,

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Research, and Program Planning. These initiatives have wide implications for the LMSB Division and would be compromised if we shifted CAS limited resources (now 293 CASs and not 335 as shown in your report) to work tax return inventories.

RECOMMENDATION 2:

Improve the management information system and accelerate implementing performance measures so the CAS Program's benefits can be measured and opportunities for improvement identified.

CORRECTIVE ACTIONS:

The Director, FS Program will implement the ERS system, for use by IC examiners and CAS/FS Program management, effective October 31, 2002. The CAS Program management will develop reports from information on the ERS to assist with management decisions.

We will work with the Performance, Quality, and Innovation Office to develop measures.

IMPLEMENTATION DATE:

PROPOSED DATES: October 31, 2002 – ERS roll out

October 31, 2003 – Development of the performance measures

RESPONSIBLE OFFICIAL:

Director, Field Specialists

CORRECTIVE ACTION(S) MONITORING PLAN

The CAS Program management will use the ERS to monitor case referrals and develop reports.

RECOMMENDATION 3:

Evaluate the opportunity to modify the structure of the CAS Program, particularly focusing on whether CASs could become responsible for conducting their own examinations, and how more comprehensive computer analysis training could be provided to all examiners to facilitate their work.

The Large and Mid-Size Business Division Should Consider Changes to the Computer Audit Specialist Program to Address Operational Priorities

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CORRECTIVE ACTIONS:

We will not implement the proposed recommendation at this time for reasons explained in the "Assessment of Causes" Section above, under the "CAS Program Structure Modifications" heading.

IMPLEMENTATION DATE: N/A

RESPONSIBLE OFFICIAL: N/A

CORRECTIVE ACTION(S) MONITORING PLAN: N/A

If you have any questions, please contact Keith Jones, Director, Field Specialists, at (202) 283-8290.